



DEPARTMENT OF  
**FINANCE**

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 31, 2007

David M. Carlisle, M.D., Ph.D. Director  
Office of Statewide Health Planning and Development  
400 R Street, Suite 359  
Sacramento, CA 95811

Dear Dr. Carlisle:

**Final Report: Office of Statewide Health Planning and Development—Risk and Control Assessment**

Enclosed is our risk and control assessment of the Office of Statewide Health Planning and Development (OSHDP). The Department of Finance, Office of State Audits and Evaluations (Finance), performed this review in accordance with the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400 et seq.

The assessment includes the status of previous audit findings as well as a section on currently identified issues/risks. This section was developed jointly by OSHDP and Finance staff. We did limited testing on most of these issues/risks because they represent ideas for program enhancements rather than potential control deficiencies. The assessment includes OSHDP's response to the draft report.

The assessment, along with your response to the assessment's recommendations, should be signed by the OSHDP Director and submitted to your agency secretary. Any other OSHDP documents describing program initiatives and control activities can be included with the submitted assessment. Copies of the assessment should also be submitted to the Legislature, the State Auditor, the Governor, the Director of the Department of Finance, and the State Library.

We appreciate the assistance and participation of the OSHDP staff and management during our assessment. If you have any questions regarding this report, please contact Mary Kelly, Manager, or Dennis Mehl, Supervisor, at (916) 322-2985.

Sincerely,

*Original signed by Richard R. Sierra for:*

Janet I. Rosman, Assistant Chief  
Office of State Audits and Evaluations

Enclosure

cc: Ms. Stephanie Clendenin, Deputy Director Administration, Office of Statewide Health Planning and Development

# ARISK AND CONTROL ASSESSMENT

---

## Office of Statewide Health Planning and Development

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

# BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

---

## **Background**

The Legislature enacted Government Code Section 13070 which created the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). FISMA charges each state agency with the responsibility of maintaining effective systems of internal accounting and administrative program control as an integral part of its management practices. All levels of management at every state agency must be involved in assessing and strengthening these systems. The Legislature also mandated that the systems of internal accounting and administrative program control be evaluated on an ongoing basis. The Office of Statewide Health Planning and Development (OSHPD) contracted with the Department of Finance (Finance) for the performance of a Risk and Control Assessment to comply with the reporting requirements of FISMA.

The OSHPD's mission is to promote healthcare accessibility. The OSHPD strives to achieve this through the following activities: analyzing California's healthcare infrastructure, promoting a diverse and competent healthcare workforce, providing information about healthcare outcomes, assuring the safety of buildings used in providing healthcare, insuring loans to encourage the development of healthcare facilities, and facilitating the development of sustained capacity for communities to address local healthcare issues. These activities are addressed with approximately 400 staff positions and an annual budget of more than \$78 million.

## **Objectives and Scope**

The objective of the risk and control assessment was to assist OSHPD in complying with the reporting requirements of FISMA. The scope of the assessment included performing an internal review and risk assessment of critical programmatic and business functions of OSHPD. Programs were selected for review based on management concerns, potential fiscal control weaknesses, and other risk factors applicable to the business functions of OSHPD.

## **Methodology**

To initiate this assessment, Finance gained an understanding of OSHPD's mission and critical functions. We familiarized ourselves with the control environment of OSHPD by reviewing the Internal Control Review of OSHPD issued by Finance in December 2003. We conducted interviews with OSHPD staff and reviewed documentation and procedures to determine if previous audit findings had been resolved. The Prior Finding Status Summary Section of this report is a follow-up review of findings identified in the 2003 report.

Finance collaborated with OSHPD management to conduct a risk analysis to identify and evaluate the threats and/or risks that could impede OSHPD's achievement of its objectives. Discussion sessions were conducted with each division to identify the most significant program and administrative issues impacting OSHPD's functions. During the sessions, the control

environment was also discussed. A follow-up evaluation of controls was conducted where appropriate and recommendations were identified to address risk and control issues. The results of these activities comprise the Issues and Recommendations Section of this document.

The risks/issues and related recommendations do not necessarily constitute control deficiencies, but rather are enhancements to activities designed to achieve OSHPD's missions and goals.

**STAFF:**

Mary Kelly, CPA  
Manager

Dennis Mehl  
Supervisor

Angie Miller  
Supervisor

Michael West, CPA  
Danielle Dannible

## PRIOR FINDING STATUS SUMMARY

---

The Department of Finance (Finance) conducted an internal control review of the Office of Statewide Health Planning and Development (OSHPD) in 2003. The results of that review were included in a report issued December 2003. The December 2003 report noted a number of controls that were functioning as intended. The report also identified areas where controls were not in place and made recommendations to implement appropriate controls. The report included findings and recommendations in the following areas:

- Cash Receipts
- Accounts Receivable
- Cash Disbursements
- Revolving Fund
- Fixed Assets

To facilitate our understanding of OSHPD's control environment, we reviewed the findings identified in the 2003 report. After identifying staff with responsibility in the areas of identified weaknesses, we conducted interviews to determine the current control activities. We reviewed selected documents and procedures to determine if previous audit findings had been resolved. The following summarizes the findings noted in 2003 as well as our observations as to the current status.

### **Cash Receipts**

Prior Finding:

Remittances to the State Treasurer's Office (STO) were not timely.

Status:

Current remittances to the STO are timely.

### **Accounts Receivable**

Prior Finding:

Controls over accounts receivable were not adequate.

- Long-outstanding payroll account receivables recognized in the 1991-92 fiscal year had not been collected.
- There were no collection efforts for payroll accounts receivables totaling \$12,048.
- Scheduled payroll deductions had not been communicated to three individuals.
- There were no collection efforts for Health Care Community Development Agreements totaling \$21,041.

Status:

All previous payroll accounts receivables have been cleared and there are no long-outstanding payroll accounts receivables.

Collection efforts have been made for the Health Care Community Development Agreements; however, further collection efforts were not sent to the Franchise Tax Board timely. A reportable item remains in this area.

### **Cash Disbursements**

Prior Finding:

Separation of duties over cash disbursements was not adequate. The staff responsible for authorizing disbursements also signed checks and had access to blank check stock.

Status:

Key areas, such as custody of blank checks, check writing, and check signing now have adequate separation of duties.

### **Revolving Fund**

Prior Finding:

Five salary advances had not been cleared as of the date of the previous review; one dating back over two years.

Status:

All but two of the payroll advances had been collected and collection efforts on the remaining two have been exhausted.

### **Fixed Assets**

Prior Finding:

Separation of duties over fixed assets was not adequate. The Business Services Officer I duties included performing physical inventory counts and having access to and control of the inventory tracking system.

Status:

Separation of duties over fixed assets is adequate. The Business Services Office no longer conducts the physical inventory count. Either an Office Technician or Inventory Control Specialist enters the inventory data into the asset tracking system. Additionally, OSHPD maintains an authorization list with signatures for recording, transferring, and disposing fixed assets.

Prior Finding:

Capitalized acquisitions and dispositions were only entered into the CALSTARS general ledger at year-end, not monthly or quarterly. The property ledger did not include all property items and the monetary values of fixed assets.

Status:

All acquisitions are entered into the general ledger on a monthly basis. The property ledger is complete, including recent acquisitions and monetary values of fixed assets.

Prior Finding:

The last physical inventory count of property was conducted in June 2000.

Status:

In April 2007 OSHPD conducted a physical inventory count and reconciled it to the general ledger.

Prior Finding:

Not all state property was properly identified as state property. This included 35 percent of equipment in the server room and 86 percent of capitalized assets.

Status:

The property selected for testing was properly tagged.

## ISSUES AND RECOMMENDATIONS

---

The Issues and Recommendations Section of this report was developed through collaborative risk and control assessment discussions between OSHPD and Finance staff. At each division, discussion sessions were conducted to identify the most significant program and administrative issues impacting OSHPD's functions. During the sessions, the control environment was also discussed. A follow-up evaluation of controls was conducted where appropriate and recommendations were identified to address risk and control issues.

The risks/issues and related recommendations do not necessarily constitute control deficiencies, but rather are enhancements to activities designed to achieve OSHPD's missions and goals.

### **Administration Division**

The Administration Division provides administrative support for OSHPD. The services provided include:

- Business and Contract Services including Facilities Management and Procurement
- Fiscal Services including Accounting and Budget Services
- Human Resources Services

### **Issue: Key Person Dependency and Lack of Budget Officer Written Procedures**

The OSHPD has a complex budget involving eleven funds. The Budget Office is budgeted for a Budget Officer and a Budget Analyst, and is responsible for the following:

- Monitoring and tracking all expenditures by program and by fund.
- Verifying expenditure availability for all purchases and contracts.
- Reviewing all personnel documents related to hires and reclassifications of positions.
- Developing the annual Governor's Budget spreadsheets and supporting schedules.
- Serving as the main contact for Finance and the Legislative Analyst.
- Identifying program costs for legislative bill analyses.
- Serving as the main contact for legislative consultants for fiscal components of bill analyses, and
- Preparing and maintaining fund condition statements for all special fund appropriations.

The Budget Analyst position is currently vacant. Further, the Budget Office does not have a procedures manual to explain OSHPD's budget process. There exist no instructions with which to train incoming personnel and guarantee continuance of activities, creating a key person dependency issue.



#### Risk:

If the current Budget Officer vacated the position, OSHPD would have to rely on several Administration Division employees to perform the Budget Officer's duties until a replacement is identified and trained. This would slow the processes and projects in other areas of the Division. Without a Budget Office Procedures manual, the training period for new budget office employees is extended, and the continuity of budget operations is compromised.

#### Recommendation:

The OSHPD should designate a specific back up person for the Budget Officer. Also, OSHPD should develop and maintain a detailed procedures manual for all budget related functions.

### **Facilities Development Division**

The Facilities Development Division (FDD) reviews and inspects health facility construction projects valued in excess of \$8 billion. FDD enforces building standards published in the California Building Standards Code as it relates to health facilities construction.

#### **Issue: California's Health Facilities Will Not Meet Retrofitting Deadline**

Many of the state's health facilities rated as the most vulnerable to earthquake damage will not meet seismic retrofitting deadlines. Using a 1991 evaluation approach, the best technology available at the time, the hospital buildings were rated for expected structural (SPC) and nonstructural (NPC) performance using a scale of 1 (worst) to 5 (best). Buildings rated as SPC-1 are considered the worst and have significant risk of collapsing during a strong earthquake. Over 1,100 of the more than 2,700 acute care hospital buildings in California are rated SPC-1. These buildings house nearly 41,000 acute care beds; 48 percent of the total number in the state.

Hospitals have until January 1, 2008 (or 2013 if granted an extension), to retrofit, replace, or remove from acute care service their SPC-1 buildings. All but 10 of the 434 general acute care hospitals in California have applied for extensions.

The Hazards United States (HAZUS) seismic risk evaluation methodology, developed by the Federal Emergency Management Agency under cooperative agreement with the National Institute of Building Sciences, would allow SPC-1 buildings to be ranked by relative seismic risk. Those buildings that pose the greatest risk will be identified and prioritized for retrofit, replacement, or retirement (the "worst first" compliance strategy proposed in the Governor's Healthcare Reform proposal). Buildings that pose lower seismic risk can be reclassified to a higher seismic performance category and be given more time to upgrade or replace. Based upon preliminary analysis of the HAZUS data on 449 SPC-1 hospital buildings in California, it appears that about 40 to 50 percent of the SPC-1 buildings could be eligible to be placed in a higher seismic performance category. Such reevaluation would allow additional time for retrofitting deadline compliance, extending the deadline from 2008 to 2030. Using preliminary data on the SPC-1 building stock, forecasts of the probable outcome of the HAZUS analysis, and construction cost estimates, FDD projects short term cost savings of \$4.7 billion.

Risk:

The State may have insufficient healthcare facilities if facilities that are not retrofitted are closed. Hospitals that do not meet the seismic retrofitting deadline are reported to the Department of Public Health Licensing and Certification Program and have their licenses revoked; therefore, the hospital in non-compliance is subject to closure. In most urban areas there are other hospitals patients can use for emergency services; however, in rural areas a public hazard is created if there are no other emergency services available in the area.

Recommendation:

Reevaluate the state's health facilities seismic risk ratings using the HAZUS methodology. After the reevaluation, proceed to prioritize the highest risk hospitals for retrofitting and issue construction extensions until 2030 for the hospitals with lower risk of seismic vulnerability.

**Issue: Hospital Inspector Certification Examination is Not Certified**

The mandatory Hospital Inspector Certification Examination (IOR) for the testing, certification and recertification of Hospital Inspectors in California is not certified as culturally or gender unbiased. In 2006, approximately 200 individuals participated in the IOR exam with a pass rate of 62 percent. The FDD had previously attempted to contract with a vendor for certification of the examination. However, citing problems with the agreement and excess cost, the Department of General Services (DGS) did not approve the contract.

Risk:

An applicant could sue OSHPD on the basis that the examination is culturally or gender biased.

Recommendation:

Reevaluate contracting with a vendor for the certification of the exam. Collaborate with DGS to facilitate the negotiation of an acceptable agreement.

**Issue: Lead Time to Purchase Software Can Delay Project Reviews**

Hospital design structural engineers use advanced software programs to assess and verify the structural integrity of hospital building designs. The OSHPD engineers must review the project plans using the same software the designer used. However, there are instances when OSHPD does not have the specific software and needs to purchase it. The current process to purchase software under the DGS' delegation authority is lengthy and delays OSHPD's review process. While OSHPD allows 60 days to perform the first design review of a typical project, the procurement process can take several months to a year.

Risk:

Delays in the hospital building design plan review and approval process delays the contractor's completion of the healthcare facility project.

#### Recommendation:

Include instructions in the initial application for submitters to indicate the specialized software they are using to design the project. Inform hospitals and trade organizations of the need for advanced notification. Also, refer to the Healthcare Information Division's Issues and Recommendations for additional recommendations relating to procurement.

### **Healthcare Information Division**

The Healthcare Information Division (HID) administers the databases that are the foundation of OSHPD's information products. The HID collects data from all licensed health facilities in California and ensures the accuracy and confidentiality of the data. The Healthcare Outcomes Center (HOC) and the Healthcare Information Resource Center (HIRC) provide healthcare information products for accurate assessment of patient outcomes, healthcare planning, patient safety and the avoidance of errors in the healthcare delivery system.

#### **Issue: Impediments to Equipment and Software Procurement**

Obtaining up-to-date equipment has proved time consuming based on the delays involved in the procurement of information technology goods and services. The review and approval process to obtain equipment is lengthy and requires numerous steps for even the smallest, most inexpensive equipment. This problem is compounded by the requirement to conduct competitive and non-competitive procurements over \$4,999.99 through DGS's Technology Acquisition Section.

#### Risk:

Delays in obtaining up-to-date information technology goods and services delay the accomplishment of OSHPD's mission and goals.

#### Recommendation:

Pursue an increase in the Delegated Purchasing Authority for Information Technology (IT) Competitive Procurements from the current level of "Minimum" (\$4,999.99) to "Standard" (\$500,000). This would also result in an automatic increase of the Non Competitive Bid IT delegation from \$4,999.99 to \$25,000.00. Increasing the delegation authority for IT Procurements would allow a majority of the procurements to be conducted within OSHPD, thereby significantly reducing the time between need identification and acquisition of goods and/or services.

#### **Issue: Improving Data Integrity**

The OSHPD is nationally recognized for its healthcare related data collection, internal error-checking, and integrated data management capabilities. Increased reliance on the facility and patient-level data by stakeholders and policymakers underscores the importance of data accuracy and transparency.

Current resources are not sufficient to perform onsite audits and additional validation studies to verify that the collected and reported data is accurate and reliable. The OSHPD relies solely on automated error-checking for assuring the accuracy of key data.

Risk:

Stakeholders and policymakers may decrease their reliance on and use of OSHPD reported data if the accuracy of key data cannot be assured.

Recommendation:

Identify resources or alternatives for developing a validation program which include the following three components:

- Linkages between different data sources that incorporate automated validation and error-checking.
- Patient medical chart reviews (medical record re-abstraction studies).
- Audit of financial, utilization, and pricing information submitted by hospitals, long-term care facilities, and clinics.

**Issue: Software Development Life Cycle**

The time to develop and implement software is an issue for both new program software and for the maintenance of older software. There are no established guidelines and no one correct system to follow for identifying the phases, requirements, and approvals to upgrade existing software, or develop and deploy new software.

Risk:

Delays in developing and implementing software hamper the accomplishment of OSHPD's mission and goals.

Recommendation:

The OSHPD developed a Software Development Life Cycle system in response to this issue and is working to implement this system. The OSHPD should consider setting more aggressive timelines for implementing the system.

**Issue: Inadequate Website Presence**

The OSHPD's current website is difficult to navigate and pertinent information is not easily located. In addition, the Governor's Office issued a mandate for the state's approach to website accessibility, website usability, and the separation of content from presentation in order to improve access to state government. The deadline given for the initial phase of the redesign is November 1, 2007.

Risk:

This current website design can result in inadequate dissemination of information to the healthcare industry and to the general public.

#### Recommendation:

The OSHPD Internet Redesign Project should utilize the templates provided by the Department of Technology Services eServices Webmaster toolbox which incorporate the presentation of the ca.gov website. In addition, HID should consider commercial off the shelf software to better analyze patterns of use by visitors to its website pages.

#### Issue: **Managing Risk of Providing Access to the OSHPD Data**

The Healthcare Information Resource Center (HIRC) is the primary point-of-contact for healthcare data requests. The HIRC's role is to provide timely and efficient access to:

- OSHPD's healthcare data and reports.
- Products and publications from other OSHPD divisions.
- New information products from the nine healthcare data reporting programs maintained by the OSHPD.
- Current OSHPD information via the OSHPD website.

The access to non-public data is critical for researchers in the areas of medicine and healthcare. Significant restrictions exist on access to this data, although state laws make some provision for access by statutorily specified entities such as California licensed hospitals and university-sponsored researchers. The OSHPD must assess the risks to patient privacy that might result from disclosure of this data. The existing process for handling data requests is documented in detail; however, the process can be lengthy, resulting in delays in obtaining access to the data by researchers.

The process for reviewing requests for access to confidential data includes a review by the Information Security Officer and approval by the Chief Information Officer. Project protocols approved by the Committee for the Protection of Human Subjects are required for all confidential data requests for which the stated purpose is research and establishes the requestor's legitimacy. The data request package includes recommended standards and practices to assure a secure IT environment in which the data is used. Furthermore, OSHPD has a risk evaluation tool (currently in the pilot stage) to assess whether data is released to the requestor or whether researchers must retrieve the requested data at OSHPD's location.

#### Risk:

The HID is not meeting its division mission and goals by making healthcare information available timely to researchers.

#### Recommendation:

Continue piloting the onsite data disclosure process. Also, continue efforts to refine the existing data request review process in order to streamline the process and make it more user friendly. This should include providing more detailed instructions to requestors and revising the accompanying package of forms used to request data.

## **Health Professions Education Foundation**

The Health Professions Education Foundation (Foundation) was established as a nonprofit public benefit corporation to improve healthcare in underserved areas of California by supporting the development of health professionals agreeing to serve in communities of most need. The Foundation administers scholarship and loan repayment programs for health professional students and graduates from underserved communities and economically disadvantaged backgrounds. In return for this support, program recipients agree to provide direct patient care in a medically underserved area of California for a specified period of time.

### **Issue: Inadequate Website Presence**

The Foundation does not have a prominent presence on the OSHPD website, making the Foundation's information difficult for users to access. The Foundation webpage also does not display all current programs and the funding available for scholarships and loans. The most recent Annual Report and Summary of Program Results available online were issued in 2004. Some of the information is outdated and funding is no longer available from some of the listed sources.

#### **Risk:**

The inability of program participants to obtain information regarding scholarship and loan programs could result in the Foundation's inability to accomplish its mission and goals. Also, without current and accurate Foundation program information, future donors may not have the information they require to make an informed decision when considering donating funds to the Foundation.

#### **Recommendation:**

Monitor the website to ensure information remains current and accurate. Develop a clear link on OSHPD's website.

### **Issue: Potential Loss of Records**

The Foundation maintains a single paper copy of the healthcare professions scholarship and loan contracts files that are more than two years old. As a result, scholarship and loan contract information could be lost due to fire or other calamity. Student assistants enter current contract files into a database, but such electronic recordkeeping has not been performed on the older contracts.

#### **Risk:**

If the single copy of contracts is lost or destroyed, there would be no accurate record of the contract. If the contracts are breached, there are no accurate records of the accounts receivable established for the repayment of these breached contracts.

Recommendation:

Enter the two-year old scholarship and loan contract files into an electronic database.

**Issue: Potential Loss of Funding Due to Breached Contracts**

The Foundation currently operates without any funding from the federal government or the State General Fund. The Foundation uses the proceeds from healthcare professions loan repayments to fund further loans. As of August 2007, the Foundation has 1,319 grant and loan repayment contracts of which 351 (26 percent) have been breached. The Foundation's inability to collect on these contracts represents a loss of funding for the program.

Risk:

The Foundation may be unable to accomplish its mission and goals due to reduced funding of health professions scholarship and loan repayment programs. This could result in a shortage of healthcare professionals employed in the underserved areas of California. There is also the possibility that OSHPD could be requested to fund these scholarships and loans through the General Fund.

Recommendation:

Explore alternative methods for guaranteeing compliance with scholarship and loan agreements such as credit verification and references. Explore alternative collection procedures to collect the balances due.

**Issue: Inadequate Communication Between the Foundation and Accounting Office**

The OSHPD accounts receivable records for breached contracts do not match the Foundation's breached contract files. Of 32 breached contract files reviewed, eight (25 percent) were not included in the accounting office records. In addition, the accounting office recorded three contracts as paid in full, yet this was not reflected in the Foundation's contract files.

Risk:

Failure to notify the OSHPD accounting office of breached contracts could result in the loss of Foundation funds due to eligible collections efforts not being initiated. Further, Foundation resources could be wasted on initiating collection efforts for repaid loans.

Recommendation:

Conduct a thorough reconciliation between the breached contract files and the accounting records to determine if an account receivable has been established for each contract and to determine if accounts receivable and contract files are closed when appropriate. Implement procedures to ensure that the accounting office and the Foundation notify each other to update the accounting records and the contract files.

### **Issue: Recurring Independent Financial Statement Audit Findings**

The independent financial statement auditor reported that the Foundation's financial records are not maintained and reconciled during the fiscal year. This issue was also identified in previous audits and the Foundation concurs with these findings.

#### **Risk:**

Without current financial statements, management may not be aware of the Foundation's financial status during the fiscal year. The lack of financial records has also resulted in excessive auditor time and costs to perform the financial statement audit.

#### **Recommendation:**

Maintain the proper financial records and perform necessary reconciliations during the fiscal year.

### **Healthcare Workforce Development Division**

The Healthcare Workforce Development Division (HWDD) coordinates the state's healthcare workforce issues, including administration of the following programs:

- Song-Brown Family Physician Training Program
- Cooperative Agreement Program
- California State Loan Repayment Program
- Health Careers Training Program
- Health Manpower Pilot Project Program

In addition, the HWDD staff collect, analyze and publish data about California's healthcare workforce and health profession training, identify areas of the state with shortages of health professionals and service capacity, and coordinate with other state departments in addressing the unique medical care issues facing California's rural areas.

### **Issue: Lack of a Centralized Filing System**

The HWDD lacks a centralized filing system (electronic or hardcopy). There are no directives for filing historical information or master copies of documents. There are also no directives on retention policy, including archiving or purging information.

#### **Risk:**

Improperly filed information may not be accessible to personnel needing the information. The inability to obtain relevant information may negatively impact the HWDD operations.

#### **Recommendation:**

Develop and implement an electronic filing plan and template to be used by all staff. Also, develop a hard copy filing plan to be implemented when HWDD relocates. Review biannually,



at a minimum, the hard copy and electronic filing plan documented in Individual Development Plans prepared annually.

**Issue: Inadequate Website Information**

The HWDD's webpage does not contain current information about its programs. Division employees are currently collecting and developing the information to allow interested individuals to research available programs by county or study other detailed program information.

Risk:

Inadequate website information could result in the inability of interested parties to obtain information about data collected and programs offered, undermining the HWDD's mission and goals.

Recommendation:

Continue to update the website and monitor it regularly to ensure that the most current information is presented.

**Information Security Office**

**Issue: Lack of a Written Charter**

The Information Security Office (ISO) did not have an approved written charter outlining the program's authority, duties and responsibilities.

Risk:

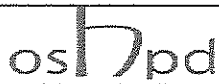
The ISO lacks authoritative, and therefore effective, communication with the other divisions. The ISO is also not able to establish, implement, and enforce software management policies.

Recommendation:

Expedite approval of the written charter for the ISO, which outlines the program's authority, duties and responsibilities.

## AGENCY RESPONSE

---



## Office of Statewide Health Planning and Development

David M. Carlisle, M.D., Ph.D., Director

400 R Street, Suite 310  
Sacramento, CA 95811-6213  
(916) 326-3600  
Fax (916) 322-2531  
www.oshpd.ca.gov



December 11, 2007

Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

Re: Draft Report: Office of Statewide Health Planning and Development – Risk and Control Assessment Responses and Clarifications

We have reviewed the draft report prepared by the Department of Finance, Office of State Audits and Evaluations. Although, no significant areas of disagreement have been identified, the Office of Statewide Health Planning and Development provides the following responses and clarifications to several issues, risks, and recommendations addressed in the above referenced draft report.

Prior Finding Status Summary

On page 5, in the Prior Finding Status Summary, the status of the "Revolving Fund" prior finding is reported as "all but two payroll advances had been collected and collection efforts on the remaining two have been exhausted." Since the assessment field work was performed, the OSHPD has successfully collected one of the two revolving fund advances listed above. Only one of the original five salary advances identified in the internal control review conducted in 2003 is still outstanding and the OSHPD will develop an action plan to pursue discharge from accountability of this item.

Administration Division

As further clarification of the Administration Division issue "Key Person Dependency and Lack of Budget Officer Written Procedures", the vacant Budget Analyst position has been filled since the time of the assessment. With the hiring of this position, the risk to the division changes in that if the current Budget Officer vacated the position, the OSHPD would have to rely on the new Budget Analyst, rather than "several Administration Division employees" to perform the Budget Officer's duties until a replacement is identified and trained. The risk would no longer be to the processes and projects in other areas of the Division rather it would be to the training for the new Budget Analyst and the new Budget Officer and to the integrity of OSHPD's budget.

### Facilities Development Division

On page 9, under the issue "California's Health Facilities Will Not Meet Retrofitting Deadline" the risk should refer to "Department of Public Health Licensing and Certification Program" rather than "Hospital Licensing and Certification Board".

### Healthcare Information Division

On page 10, the issue "Impediments to Equipment and Software Procurement" describes the review and approval process for the procurement of Information Technology goods and services as being lengthy and having numerous steps and states that it is "compounded by the requirement to conduct competitive and non-competitive procurements over \$4,999.99 through DGS's Technology Acquisition Section (TAS). The OSHPD would like to clarify that neither 1) equipment procured from a statewide contract nor 2) equipment purchased with a value up to \$99,999.99 when two bids are obtained from small business vendors would be required to be purchased through DGS's TAS. Wherever possible, the OSHPD tries to procure using these two methods which eliminates the need for procuring through DGS's TAS and shortens the procurement timelines.

On page 10, the issue "Improving Data Integrity", the accuracy of key data not only involves automated error-checking but includes desk audits.

On page 11, the recommendation to the issue "Improving Data Integrity" may be clarified to include "on-site" audits of financial, utilization, and pricing information submitted by hospitals, long-term care facilities, and clinics.

On page 11, the recommendation to the issue "Software Development Life Cycle" may be clarified that, since the time of the assessment, the OSHPD has implemented the Software Development Life Cycle system developed in response to the assessment.

On page 11, in response to the issue "Inadequate Website Presence", the initial phase of OSHPD's website redesign was approved by the Department of Technology Services (DTS) on December 4, 2007 and will be released in December. Since the website has been redesigned to utilize the templates provided by DTS, the recommendation for this issue on Page 12 has been implemented. The OSHPD is also utilizing commercial off the shelf software as an analytical tool to better understand the "pattern of use by visitors to its website pages".

### Healthcare Quality and Analysis Division

On page 12, and for further clarification of the organizational divisions and programs through which the "Managing Risk of Providing Access to the OSHPD Data" issue

functions, reference to Healthcare Quality and Analysis Division should be Healthcare Information Division (HID); the Healthcare Outcomes Center (HOC) and Healthcare Information Resource Center (HIRC) are the programmatic entities currently providing healthcare information products.

On page 12, under the issue "Managing Risk of Providing Access to the OSHPD Data" the following clarifications are provided:

- Third bulleted item should refer to the OSHPD rather than the OSHPF.
- Local public health officers and local public health departments, California licensed hospitals and certain federal public health agencies should be included in the listing of statutorily specified entities able to access data.
- The Committee for the Protection of Human Subjects project protocol approval includes confidential data requests for which the stated purpose is research and establishes the requestor's legitimacy.
- The OSHPD's risk evaluation tool assessing whether data is released to requestors or whether researchers must retrieve requested data at the OSHPD's location is currently in the pilot stage.
- In the risk for this issue, HID should be referenced rather than HQAD when addressing divisional mission and goals.

#### Health Professions Education Foundation

On page 13 of the report, the Health Professions Education Foundation (Foundation) is incorrectly referred to as the Healthcare Professions Education Foundation and is described as administering "scholarship and loan programs". It is important to clarify that the Foundation does not offer loan programs. The Foundation offers scholarship and loan repayment programs.

The report also states on Page 13, the Foundation has an "inadequate website presence". At the time the Foundation leadership met with the assessment team, a new website was in the development phase and was not ready for public release. A new website design will be launched in December and the website information will be updated periodically. Information on the new website is better organized and user-friendly making it easier for program participants to obtain information regarding scholarship and loan repayment programs.

In regards to the issue "Potential Loss of Records" on page 14, the OSHPD would like to clarify that the Foundation does not maintain the only copy of the Foundation's contracts and breaches. OSHPD's Administration Division (AD) maintains a paper copy of all of OSHPD's contracts (including the Foundation's), an electronic and paper record of payments against the contracts, and a paper and electronic record of contract breach collection efforts performed. These documents are maintained for a period of seven years. While the AD maintains these paper copies of contracts, the contract monitoring activities performed by the Foundation are not maintained in the AD's files.

The description of the Foundation's funding on Page 14 under the Issue "Potential Loss of Funding Due to Breached Contracts" does not accurately describe all of the Foundation's funding sources and as a result implies that collection of breach contracts is a primary source of funding for the Foundation. While the Foundation currently does operate without any funding from the federal government or the State General Fund, it does receive revenues from assessments on various healthcare and mental healthcare professional licensure fees that are used to provide scholarship and loan repayment opportunities. These revenues are deposited into the Foundation's funds. In addition to these assessments, the Foundation pursues grants and donations as an additional source of funding for the scholarship and loan repayment programs they provide. An additional source of funding for these activities is the proceeds collected from individuals who breach their scholarship or loan repayment contract agreements. The OSHPD and the Foundation agree that the Foundation's inability to collect on these breached contracts represents a loss of funding for the program.

The risk for this issue states, "The Foundation may be unable to accomplish its mission and goals due to reduced funding of health professions scholarship and loan programs", as stated above the Foundation offers loan repayment programs not loan programs. Additionally, this risk states that there is a possibility that the OSHPD could be requested to fund these scholarships and loans through the General Fund. It is important to note that the Foundation along with OSHPD's Budget Office closely monitor the revenues and expenditures of the Foundation's funds to ensure that obligations for scholarships and loan repayment awards are not made unless funding is available to meet the obligations. The risk to the General Fund in this issue is very minimal.

An additional area for clarification on page 14 is the issue "Inadequate Communication between the Foundation and Accounting Office". The issue identified "(OSHPD's) Accounting Office recorded three contracts as paid in full, yet this was not reflected in the Foundation's contract files." The associated risk states "Further, Foundation resources could be wasted on initiating collection efforts for repaid loans." The OSHPD would like to clarify that the Foundation does not perform breach collection efforts, the collection efforts are performed by OSHPD's accounting office. Lack of communication of contracts paid in full, would result in the Foundation spending resources on monitoring/reconciling breaches that were already paid and would not allow the Foundation to close out their contract file.

Additionally, at the time of the assessment, the procedure followed by the Accounting Office with respect to breach contracts included sending to the Foundation a copy of the paid in full letter. This letter serves as notification to the Foundation that they can close their file. However, at the time of the assessment, a process did not exist for reconciling the Foundation's and the OSHPD Accounting Office records. Reconciliation of the two records would have identified that the Foundation did not reflect the breach as paid in

full. The OSHPD will identify an action plan for reconciliation of these two sets of records.

The last issue for the Foundation, "Recurring Independent Financial Statement Audit Findings" has been resolved. In the past, the Foundation had financial accounts that were managed and maintained outside the State Treasury. In fiscal year 06/07 the Foundation transferred all of its assets from external bank and investment accounts to the State Treasury. This transfer of funds from external accounts to the State Treasury allows the Foundation and the OSHPD Management to monitor and reconcile the Foundation's revenues and expenditures within one accounting system—CalSTARS. Each month Foundation staff management and program leadership receive the CalSTARS Accounting Reports for review and reconciliation. Any errors, omission or other expense items in question or dispute are reported to the OSHPD Accounting Unit for review and follow-up.

#### Healthcare Workforce and Community Development Division (HWDD)

On page 15, in response to the issue "Lack of a Centralized Filing System", The HWDD recognizes and agrees that there is considerable risk to the lack of a centralized filing system and will develop a task specific workplan with timelines to mitigate this risk over the next 9-12 months.

On page 15, in response to the issue "Inadequate Website Information"; The HWDD website does contain accurate information. The project referenced as an issue was in the development phase when HWDD Management and leadership met with the assessment team and was not ready for public release. The entire HWDD website has been redesigned consistent with the Administration's directive and will be launched in December 2007. Additionally, the HWDD has assigned web monitoring and coordination responsibilities to senior staff which will further mitigate situations that could lead to inaccurate and outdated information being posted.

#### Information Security Office (ISO)

On page 16, response to the issue "Lack of a Written Charter", since the time of the assessment, the ISO Office has developed a draft Charter, which is currently undergoing management review. The ISO will develop an action plan to ensure the draft Charter is approved, implemented and communicated to the OSHPD management and employees.

December 13, 2007

Department of Finance

Office of State Audits and Evaluations

Page 6

If you would like to discuss this further, please contact Stephanie Clendenin, Deputy Director, Administrative Services Division at 916.326.3299.

Sincerely,

Original signed by:

David M. Carlisle, M.D., Ph.D.

Director

cc: Kim Belshe', Secretary, Health and Human Services Agency  
Stephanie Clendenin, Deputy Director, OSHPD Administrative Services Division